

Rebalancing universal credit

Making it work for
disabled people



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Executive Summary

Universal credit aims to create a much simpler and more flexible benefit system that makes work pay, “ensuring claimants are better off in work than on benefits ... clearly showing how increasing hours increases earnings ...while continuing to provide support for those who need it most”.¹

This report focuses on *support for disabled people* under universal credit. Whilst we support the principles of universal credit, our analysis shows two important types of problems that will particularly affect disabled people; one relating to work incentives, the other concerning out of work support:

Work Incentives

An extra shift at work should mean more money in your pocket. Under universal credit single people without children and relatively higher earners will generally gain for each hour of work. Couples where one person is in work and the other is seriously ill or disabled will also see much better incentives to work than in the current system. However our analysis shows that under universal credit:

- Many disabled people will find that though they face extra costs when working, they are not able to access extra financial support.
- Others will find it is beneficial for them to reduce their hours of work to access the extra financial support they need.
- Disabled working parents will *lose* money by working extra hours because of increased costs to work and the loss of free school meals. Our report *Pop goes the Payslip*¹ describes this in more detail.

Out of work support

Under universal credit, whilst most out of work support remains the same, there are a few changes which are likely to cause significant problems for disabled people:

- There is a very significant reduction in the financial support for seriously ill or disabled people who live on their own or just with dependent children and don't have a carer.
- Those who have income such as an occupational pension will be no better off as a result of having previously worked.

DWP claims that under universal credit, as earnings increase, someone will “keep 35p for every pound of net earnings”². This does not take into account someone's extra costs when working or the loss of entitlement to other financial support as hours of work increase. Some, including some disabled people, will find that their gain from every pound of net earnings is close to 35p. However other disabled people will find their gain from earning an extra pound is much less than 35p. Some will even find that earning extra money leads to a lower total income.

We have 10 recommendations to rebalance universal credit. They will help ensure that as many people as possible see a genuine gain from every hour of work and the most disadvantaged are protected. They are cost neutral because they include a 5 percentage point increase in the rate at which universal credit is withdrawn as earnings rise.

Our recommendations are based on the following broad criteria:

Most
important
criteria



Measures to improve work incentives for as many people as possible:

- As far as possible remove extra costs which some groups face.
- Ensure that groups who do face extra costs are not excluded from extra support.
- Raise work allowances and additional work allowances so each individual has an incentive to work.
- Ensure there are no perverse rules which incentivise reducing hours or not working.
- Lower the taper only if the above are met, otherwise increase it so they can be met.

Support for those who are unable to work:

- Ensure those who the evidence demonstrates are most disadvantaged and face the highest risk of social exclusion receive the most help.
- Ensure those that have paid into the system for many years but can no longer work see some advantage from having worked.



Changing the taper so someone keeps 30p not 35p for every pound earned may seem counter-intuitive. However our analysis demonstrates that if the money saved is used to ensure that gains from work are spread more evenly then it would ensure a more equitable solution. More households could receive a genuine gain from work and the most disadvantaged could be protected.

Increasing the taper helps rebalance universal credit.

Recommendations	Cost
1. Provide free school meals for all school children who live in households in receipt of Universal Credit.*	£780 million
2. Increase the subsidy for childcare costs to 90%.	£130 million
3. Allow the second earner in a household to keep an additional £50 a month of earnings before their income from universal credit is reduced.	£200 million
4. Increase the amount that someone can earn before their Universal Credit is reduced, by: a) £100 a month if there is an adult with limited capability for work or work related activity in their household <i>and</i> b) £150 if there are two adults with limited capability for work or work related activity in the household.	£100 million
5. a) Award those who are awarded more than 0 points but less than 15 points in the work capability assessment the disability work allowance without the Work Related Element. b) Treat those who are challenging a decision that they are 'fit for work' as being in the WRAG for conditionality purposes.	£50 million
6. Remove the requirement for those likely to have limited capability for work but earning more than the equivalent to 16 hours at the minimum wage, to be entitled to DLA or PIP, before they can undergo a work capability assessment to access the extra support they are likely to need.	Cost neutral
7. Include mortgage interest in the maximum amount of Universal Credit of a household even when someone is working if no one in the household is under conditionality to work.	Cost neutral
8. Introduce a self-care element for those who live on their own or with dependent children and don't have a carer. (Additional cost after savings from support component).	£60 million
9. Ensure women on maternity leave get the same support in Universal Credit whether they are in receipt of maternity allowance or statutory maternity pay.	£140 million
10. Treat any income from an occupational pension and Widowed Parents Allowance to a taper of 95%.	£70 million
TOTAL GROSS COST (Rounded to nearest £100 million)	£1,500 million
TOTAL SAVING: Raising taper to 70%	£1,500 million
TOTAL NET COST	£0

*Funding for free school meals has been devolved to Wales, Scotland and Northern Ireland. Decisions on provision are for devolved administrations to make. However, as the savings would come out of universal credit as a whole, our costings have included all of the UK. They assume that funding to cover paying for free school meals for all children in households receiving universal credit in those countries would be made available to Wales, Scotland and Northern Ireland to use as they see fit.

Report structure

The following slides examine the challenges which will be faced by different groups of disabled people claiming universal credit.

Section 1 looks at work incentives for those disabled people who are able to work. After considering overall financial support for disabled people in work it looks at the financial support available for particular groups.

Section 2 looks at financial support through universal credit for disabled people who are unable to work.

For each group considered, the first page covers:

- A summary of the issue affecting that group at the top of the page
- A slightly more in depth explanation.
- The graph then compares the gains from work as hours of work rise with the income the household would have in the current system if no-one in the household was working.
- A more technical explanation of the rules in the current system and universal credit which are driving the pattern of the graphs
- The recommendation(s) made by Citizens Advice that would address the issue they face

The second page gives an example of someone who would be affected and the impact on their income

A note about the graphs

The graphs demonstrate:

- The impact on the gains from work as hours increase for disabled people in different circumstances.
- The key problems in the support currently proposed for disabled people under universal credit.
- The impact of our recommendations.

The **grey line** on each graph shows the gains from working as hours increase under the current system. The **grey dotted line** indicates the position when the lower earnings limit in ESA applies.

The **orange line** shows the gains under current proposals for universal credit.

The **blue dotted line** shows the gains if all our recommendations were implemented and a taper of 70% was applied.

Obviously if the recommendations were implemented without increasing the taper then the gains from our recommendations would be greater.

Our analysis is based on benefit rates in April 2013 to April 2014 –none of the issues raised here has been significantly altered by changes since then.

The modelling assumes universal credit to be fully rolled out and all transitional protection exhausted.

Introduction

Giving more support to disabled people who want and are able to work would make the labour market more inclusive and bring significant gains to our economy and society.

Citizens Advice advised over 2 million clients in 2013/14, 38% of which were recorded as being disabled or having a long term health condition. About 200,000 of these clients came to a bureau with a query about employment and support allowance. Amongst this group, advisers see many people who DWP find 'fit for work' but who are subsequently found at a tribunal to be in a category who are not expected to work.

However many other disabled clients are able and keen to work but face many obstacles to doing so.

Research carried out for DWP found that over half of disabled people claiming (out of work) benefits wanted to work.⁴

"There are over 6.9 million disabled people of working age which represents 19% of the working population."⁵

"The 'gap' in employment rates between disabled people (classified as Equality Act core disabled and/or work-limiting disabled) and non disabled people for those of working age is 32 per cent."⁶

There is a great deal of evidence about the benefits to the individual from working as long as the job is appropriate to their abilities and needs.⁷ However there would also be significant gains to the economy from closing this gap and making the labour market more inclusive.

The Social Market Foundation calculated that raising the employment rate of disabled people and those with health conditions to the national average would boost UK GDP by at least £13 billion.⁸

A range of measures such as tackling discrimination, and ensuring employers make reasonable adjustments are clearly necessary if this gap is to be reduced.⁹ However the benefits system also has a role. It must ensure it supports disabled people entering and staying in work and does not place unnecessary constraints on, for example, the hours worked.

The benefits system clearly cannot address this issue on its own but it should work in a way which best facilitates disabled people staying in work or returning to work when they want and are able to do so.

A supportive system needs to take account of the additional costs of working, facilitate flexibility in hours worked and facilitate part-time working. It is also vital that it protects those who are unable to work and prevents their social exclusion.

Take account of the additional costs of working

Disabled people face a range of additional costs when they move into work which are not covered by disability benefits or by the Access to Work scheme. For example¹⁰:

- Someone with a health condition which means they become exhausted after any exertion, needing to pay for help in the house when working part-time because they need to rest when not working.
- Having to replace personal aids more frequently as a result of more wear and tear when working.

Facilitate flexibility in hours worked

Many disabled people may need to change their hours if their condition changes. It is important that the benefits system does not reduce further any flexibility the worker can offer in negotiations about hours with their employer or perversely incentivise disabled workers to reduce their hours or stop work altogether.

Facilitate part-time working

Disabled people are more likely to be in poverty and debt.⁷ They are also more likely to need to work part-time but increasing hours of work can lead to the job not being sustainable. Obviously an incentive to increase hours of work is important but it is also essential that work is financially viable in the long-term for those who cannot work full-time.

Throughout this report we look at the extent to which universal credit succeeds in achieving these aims. We compare it with the current system to highlight the differences , both positive and negative and where problems are likely to occur.

The current system

Current in work support for some disabled people gives much higher gains than universal credit but is complex. The financial support depends not only on how much is earned and the hours worked but also on the duration of employment.

Summary (see graph)

Under the current system, disabled people or those with a health condition who qualify through an assessment process (work capability assessment WCA) as not 'fit for work' can claim employment and support allowance (ESA). They are allowed to do some work and keep all their benefit including their ESA. For most disabled people, whether the maximum amount they are allowed to earn is £101 a week or £20 a week depends on how long they have been doing this work. This makes the system complex to navigate, especially as if their earnings are above the amount allowed then all their ESA is lost giving a very sharp drop in disposable income.

Those working 16 hours or more a week can claim the disability element of working tax credit (WTC).

Working under 16 hours

In the current system disabled people claiming employment and support allowance can work up to 16 hours without losing any benefits. This is known as **permitted work**. However if they get paid more than the permitted work earnings limit (£101) they lose all their ESA. (*point 1 on graph*).

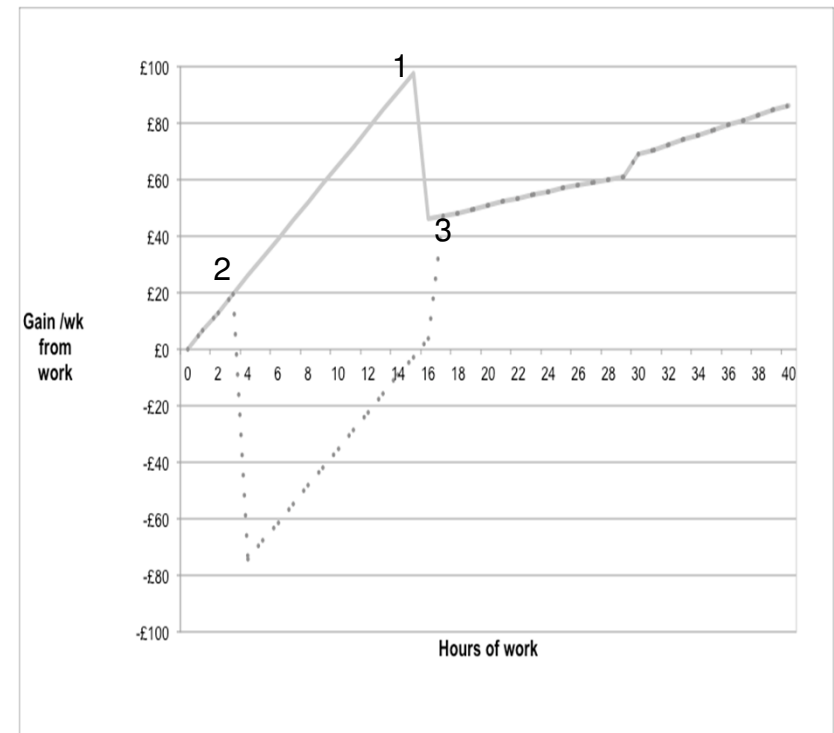
After one year of doing permitted work those who haven't moved into work of 16 hours or more will have to reduce their hours so they earn no more than £20 a week. If they do not do this they will lose all of their ESA (*dotted grey line at point 2*). (There are a couple of exceptions to this rule – see page 16).

Working 16 hours or more

Disabled people who work 16 hours or more can claim working tax credit (WTC) with the disability element (*point 3 on graph*) if:

- They have an impairment which puts them at a disadvantage in getting and keeping a job. **And**
- They have in the recent past been on ESA. **Or**
- They are in receipt of DLA or PIP.

Gain from work under current system
(single disabled person on ESA and then WTC earns £6.50 an hour and in rented accommodation)



Universal credit

Universal credit will allow greater flexibility in moving between different hours of work. However all additional support for disabled people will be accessed through the Work Capability Assessment (WCA) – this will leave many disabled people with no extra financial support in work to cover their extra costs.

The structure of financial support for disabled people in universal credit.

Any disabled person, whether working or not, who wishes to claim additional financial support will have to have a work capability assessment (WCA). If they are placed in the work related activity group (WRAG) or the limited capability for work or work related activity group (support group) they will have the associated element added to their maximum universal credit award.

Any household who qualifies for one of these elements will also qualify for the disability work allowance which is set at a higher amount than the work allowance for non-disabled people without children. (Work allowances are the amount of earnings someone can keep without it leading to a reduction in the amount of universal credit they receive.)

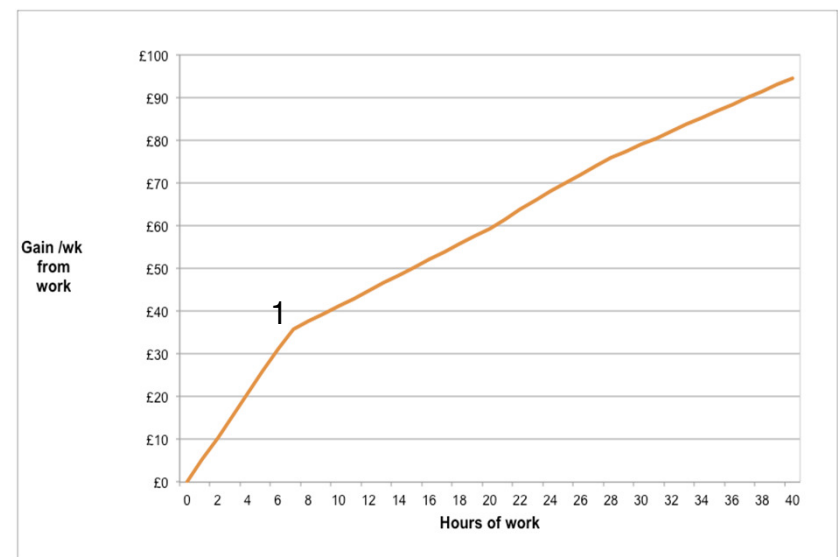
Summary of advantages and disadvantages of universal credit for disabled people

- Under universal credit, sick or disabled people who are unable to work for 16 hours or more will be able to work less than 16 hours without time restriction.
- Those who need to vary their hours of work due to a fluctuating condition will also no longer need to face the complexity of moving between in work benefits and tax credits and out of work benefits.
- **However many disabled people who do face extra costs in work will be found 'fit for work' and so will be unable to access any extra financial support. Their gains from work will be much lower than in the graph opposite (see page 25).**

Impact of this structure on those in the WRAG

As can be seen from the graph below, this structure provides a steady gain from work. Up to **point 1** someone keeps all of their maximum universal credit as well as their earnings. After point 1 their universal credit starts to be reduced by 65% of any earnings above the work allowance (a taper of 65%).

Gain from work under universal credit for single person in the WRAG
(earns £6.50 an hour, lives in rented accommodation)



1 a) Overall support for disabled people

Problem: Disabled people are more likely to be in low income work and are also likely to face higher costs of working.

Issue

Many disabled people will only be able to work part-time and will be in low income work

In our report *Holes in the Safety Net*¹⁰ disabled people highlighted a large variety of extra costs which a non disabled person would be less likely to face and which cannot be covered by the Access to Work Scheme.

Advisers tell us that they frequently see disabled people who have felt pushed to take on more hours of work than they can cope with because of the difficulty in making work pay and that then leads to them falling out of work.

“Disabled people are more likely to have low-paid, low-status jobs which may not lift them out of poverty.”¹¹

Disabled people are more likely to be in debt, more likely to be in poverty, more likely to earn less per hour than non disabled people and more likely to work part-time.¹²

“The employment rate gap between disabled and non-disabled people with no qualifications is 35 percentage points, compared to 15 percentage points for those with a degree”.¹³

Who will this affect?

The group who are likely to struggle most to make work pay are disabled people working in low paid jobs. The extra costs of working forms a higher proportion of their gain from work. If the employment gap is to be addressed then work needs to pay for disabled people who can only work part-time and who have a low level of qualifications. The maximum someone on ESA can earn doing permitted work is about £100 a week. They must be working for less than 16 hours a week (see page 8). **Over 60,000 people who claim ESA are doing some form of permitted work.**¹⁴

Disabled people who are working at least 16 hours can claim the disability element of working tax credit (WTC). This gives extra support to those only able to work part-time on a low wage. **114,000 people claim the disabled workers element WTC.**¹⁵

For those who would qualify as not 'fit for work' universal credit will also offer that extra support. However many of those on the disability element of WTC would not be found not 'fit for work' and so not qualify for the extra support.

Recommendation 4a

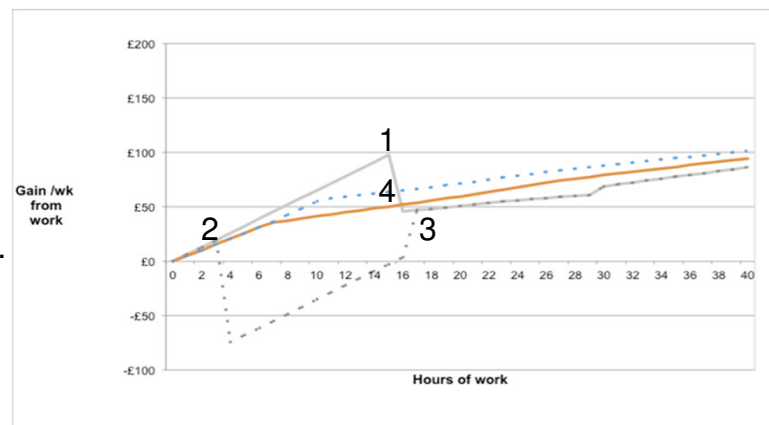
Increase the amount that someone in a household can earn before their universal credit is reduced, by:

- a) £100 a month if in their household there is an adult with limited capability for work or work related activity and**
- b) £150 a month if in the household there are two adults with limited capability for work or work related activity.**

Solution: The Citizens Advice proposal to increase the work allowance for disabled people by £100 a month gives a larger gain from work even with a taper of 70%. It is particularly helpful for disabled people on the lowest levels of income and those who can only work part-time.

The graphs opposite show how gains from work change as hours of work increase for a single disabled person who qualifies / would qualify for the WRAG. The current system (grey line) has some points where there is a higher gain for the hours worked. However universal credit (orange line) allows a smoother increase as hours rise. Citizens Advice proposals for universal credit (blue dotted line) maintain this smooth increase but at a higher gain throughout and boosting income particularly for those disabled people only able to work a few hours. Someone paying a higher rent would have a similar shape graph but would take longer to move out of benefit.

Earns £6.50 an hour (weekly rent £80, council tax £15).



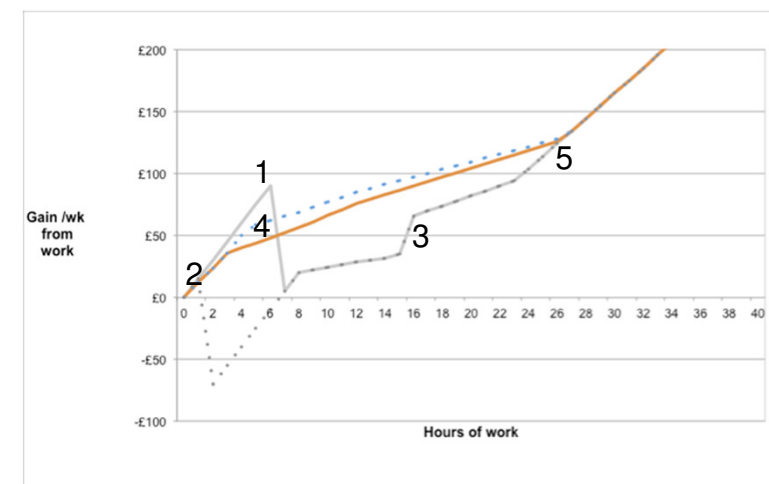
Underpinning analysis

The current system (grey line) does enable a disabled person to build their hours of work, moving within a year from permitted work on ESA (point 1 solid grey line) to working 16 hours or more and claiming working tax credit (point 3). It also assists those who are allowed to earn above £20 a week indefinitely on ESA (point 1). However those with a chronic condition who are unable to work for at least 16 hours for a longer period or indefinitely need to restrict their earnings to £20 a week every other year. (point 2 dotted grey line)

Under universal credit as currently proposed (orange line) for those who have been found **not** 'fit for work' the gains from work are much steadier and more predictable than the current system. However many of those in supported work will be worse off than in the current system (point 4)

Under our proposals for universal credit (blue dotted line) even with a 70% taper, the increased work allowance means that gains from work are better for all levels of earnings but particularly for those only able to work part-time. Those on higher levels of earnings move out of benefits altogether at an earlier point (point 5)

Earns £15 an hour (weekly rent £80, council tax £15)



1 b) People doing supported work

Many of those in supported work* will be worse off under universal credit.

***Supported work** is work which is supervised and arranged through a scheme to help disabled people into work. People who qualify as doing supported work and earn less than £101 a week can do this work indefinitely.

Issue

The graph opposite shows that for someone in supported work and living in rented accommodation, **universal credit (orange line)** gives significantly lower gains than the **current system (grey lines)**. **Citizens Advice proposals for universal credit (blue dotted line)** mitigate this problem whilst maintaining a smooth progression of gains as hours increase.

Underpinning analysis

In the **current system, (grey line)** disabled people who are in work which qualifies as supported work or are in the support group, can continue indefinitely to earn up to the higher permitted work limit (currently £101) without losing any of their benefits (**point 1**). If they earn more than this they lose all their ESA. They can claim WTC if they work at least 16 hours (**point 2**).

Under universal credit (orange line) people who live in rented accommodation and are in supported work of less than 16 hours will be much worse off than under the current system. If they also live on their own and don't have a carer they could be a further £60 worse off because of the loss of the severe disability premium (see section 2a).

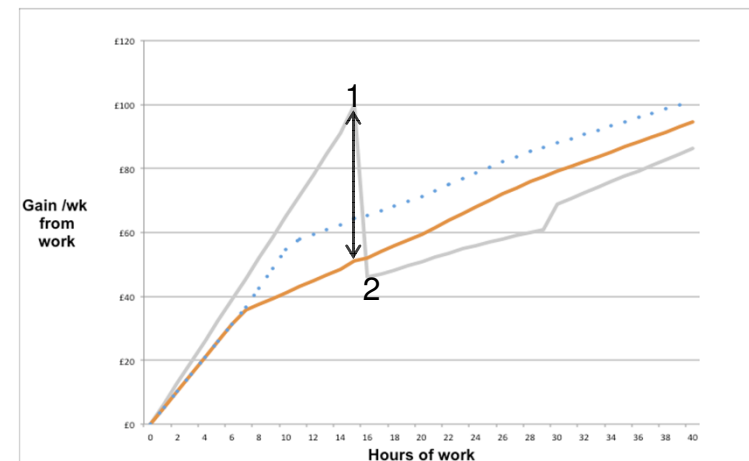
Those who live with their parents so don't pay any rent and are in the WRAG will be no worse off. If they are in the support group they will be a bit better off. **There is a danger that these changes will threaten the independence of some disabled people because they will not be able to afford to live on their own.**

Under Citizens Advice proposals for universal credit (dotted blue line) the gains from work for this group are increased compared to current proposals for universal credit.

Who will this affect?

Supported permitted work is work done by people who have a long term disability that has had "a significant impact on their ability to learn or sustain a traditional job which will always, or for a number of years, prevent them from working more than a few hours each week". Under Incapacity Benefit about 17,000 people were doing supported permitted work¹⁶. Statistics are not collected for ESA.

Gains from work a week for someone in supported work (qualifies for WRAG, in rented accommodation)



Recommendation 4a): Increase the work allowance for disabled people to make a significant difference for those in supported work.

1 b) People doing supported work (continued)

Illustrative example: John, who has Downs Syndrome

What does this mean for John?

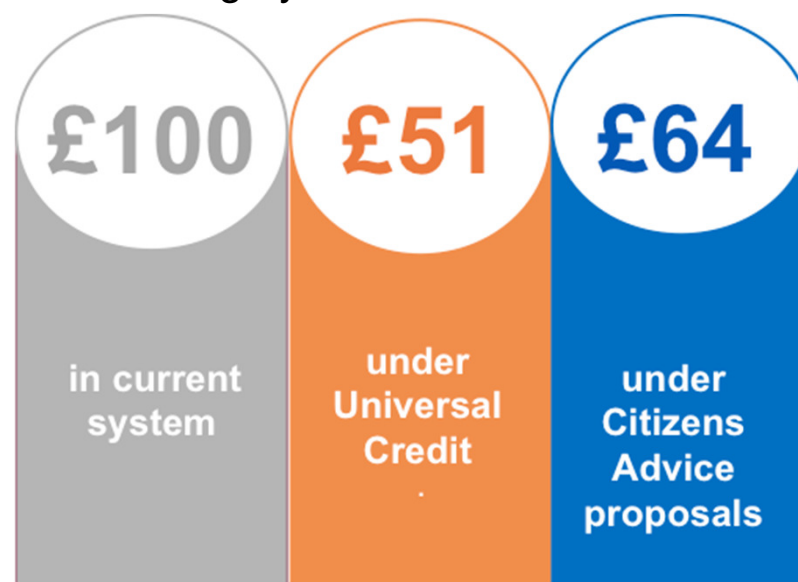
John has Downs Syndrome. He works 2 days a week in a sheltered workshop and earns £100 a week (15.4 hours a week at £6.50 an hour). He lives in a social housing flat and has some support services. He pays a contribution to these out of his wages. His mum also sees him regularly and is his carer.

Under the current system, he will be £100 better off than if he didn't work but has no incentive to work any more hours as even working full-time he will be worse off.

Under universal credit he will be £51 better off than if he didn't work. There is an incentive to work more hours but even if he can work full-time (35 hours) he will only be £78 better off than if he didn't work.

Under Citizens Advice proposals for universal credit the increased work allowance means he will be £64 better off than if he didn't work and if he works for 35 hours he will be £95 better off.

John with earnings of £100 a week in supported work will be better off than not working by:



1 c) Disabled parents i) single parents

Problem: Universal credit will make it simpler for most single disabled parents to work less than 16 hours a week. However it will be more difficult for them to increase their hours of work substantially because of the financial barrier caused by the loss of free school meals.

Issue (see graph).

For disabled single parents on a low income, **universal credit (orange line)** gives significantly lower gains than the **current system (grey lines)** for those working 16 hours or more a week. In particular the sudden drop in disposable income at the earnings point when school meals have to be paid for creates a barrier to increasing their hours. **Citizens Advice proposals for universal credit (blue dotted line)** restores a steady gain in income as hours of work rise.

Underpinning analysis

In the **current system (grey line)** disabled single parents unable to work 16 hours a week face the same complex permitted work rules as others on ESA - graph illustrates higher (**point 1 solid grey line**) and lower (**point 2 dotted grey line**) earnings limit. They also get no help with childcare costs. If they can do 16 hours or more of work then they receive up to 95% support with their childcare costs through a combination of benefits (**point 3 grey line onwards**).

Under universal credit (orange line) disabled parents will, as other parents, be able to claim childcare costs for work of less than 16 hours. However there will be a significant barrier to increasing hours of work beyond the earnings point where they need to pay for school meals - (modelled at £6000 a year - **point 4**) as we outlined in our report *Pop goes the Payslip*. **The need to pay for school meals means that it will take another 16 hours of work a week to make up for the drop in disposable income (point 5).**

A disabled parent is likely to also have additional costs of disability in work. They will get the WRAG or Support element added to their maximum amount but won't get any additional help from the disabled person's work allowance (The parents work allowances are higher than the work allowances for disabled people and only one work allowance is allowed).

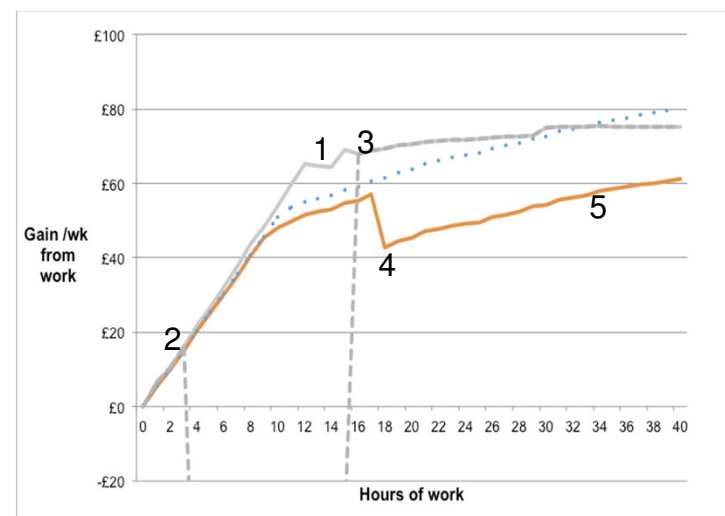
Under Citizens Advice proposals for universal credit (blue dotted line) there is a steady increase in disposable income.

Who will this affect?

92% of single parents are women. Of these 15% (about 275,000) single mothers have a long standing illness or disability which limits daily activities compared to 9% of mothers who are part of a couple. 8% of these disabled single parents (just over 20,000) are working 16 hours or more and a further 15% (about 40,000) are working 1 to 15 hours a week.¹⁷

Gains per week from work for a disabled lone parent

(eligible for the WRAG rent £80 a week, council tax £15 a week, earns £6.50 an hour, two children - 8 & 10 years)



Recommendations 1,2 and 4 : Measures (free school meals, increased support with childcare costs and increased work allowance) to improve work incentives for disabled single parents.

1c) Disabled parents (single parents continued)

Illustrative Example: Joanne, a disabled single parent

Joanne

Joanne is a single parent with two children aged 8 and 10 years. She had a stroke three years ago and still has a weakness down her right side. She is unable to walk far and gets quickly tired. When she is tired she becomes confused. She claimed ESA after the stroke and at her last WCA she was placed in the WRAG.

Her old employer has offered her a job in the firm's office, four hours a day, four days a week which she accepts. After a year her employer asks her to increase her hours to five a day. She thinks she could manage that. As well as during the school holidays she will need childcare for the children for a short time after school as she needs to rest after working.

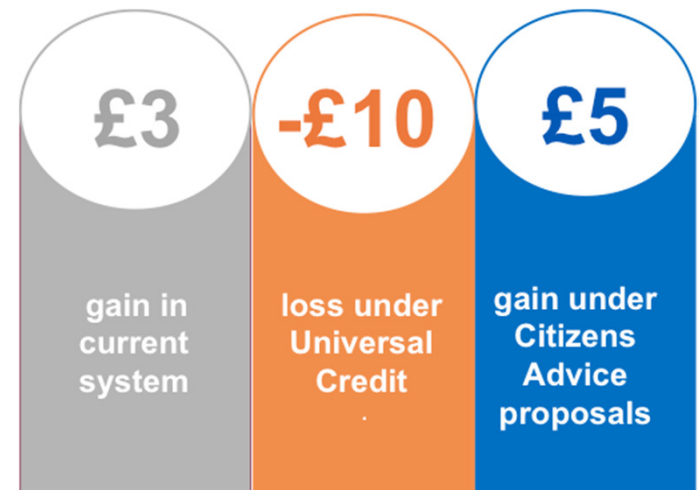
Under the current system working long-term for less than 16 hours is complex but working 16 hours a week she is £68 better off compared to not working. If she agrees to work 20 hours a week her gain from work will increase to £71 a week.

Under universal credit she will be £55 a week better off in work. However if she agrees to work 20 hours a week she will only be £45 better off in work after she has paid for her children to have school meals— **she is losing £10 a week because she works an extra four hours**. She may also have other extra costs of more hours of work.

Under Citizens Advice proposals she will be £59 better off in work of 16 hours a week. If she works 20 hours a week she will be £64 better off.

“21% of children in families with at least one disabled member are in poverty, a significantly higher proportion than the 16% of children in families with no disabled member.” Gov.UK¹⁸

Change in income for working four more hours:



1c) Disabled parents ii) couples one in work, the other unable to work

Problem: While support for this group is much better under universal credit, if the partner who is working can only work part-time, they will face a financial barrier to increasing their hours of work.

Issue (see graph)

For couples where one is unable to work and has significant care needs, **universal credit (orange line)** gives much higher gains from work than the **current system (grey lines)**. However the couple will still face a drop in disposable income at the earnings point when school meals have to be paid for, creating a barrier to increasing working hours. **Citizens Advice proposals for universal credit (blue dotted line)** restores a steady gain in income as hours of work rise.

Underpinning analysis

In the current system (grey line) support is poor for this group. The loss of the carers premium (**point 1**) means gains for working more hours are very poor even with support from working tax credit.

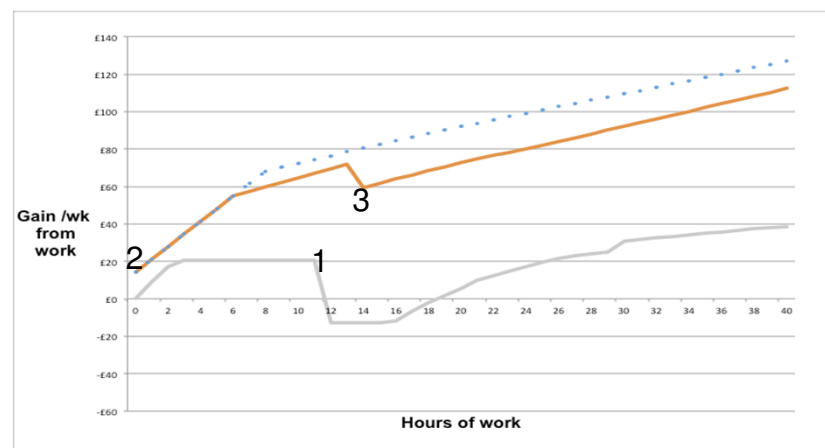
Under universal credit (orange line) there is a gain whether in or out of work from the raising of the support element in universal credit. (**point 2**). The work incentive for carers is also considerably improved because a carer will continue to be entitled to the carers element regardless of earnings. However many will only be able to work part-time because of caring responsibilities and are therefore likely to hit the same barrier as the single parent, caused by loss of free school meals (**point 3**).

Under Citizens Advice proposals for universal credit (blue dotted line) there is a steady increase in disposable income.

Who will this affect?

Single earner households with children such as those where one partner is unable to work because of their health condition or disability and their partner can only work part-time because of caring responsibilities. In 15,000 couples, one of the partners is entitled to the severely disabled adult addition – an indication of a high level of care needs.¹⁹

Gains from work for a couple - one in support group of ESA, other earns £8.50 an hour. (rented accommodation, 2 children, 12 & 14)



Recommendations 1,2,3 & 4 : Measures (free school meals, increased support with childcare costs, a second earner work allowance and an increased work allowance for disabled people) to improve work incentives for couples with children, one partner in work, the other partner unable to work.

1c) Disabled parents ii) couples continued.

Illustrative example: Mary has bipolar disorder, her partner Pete has reduced his hours of work to care for her

Mary and Pete

Mary and Pete have 2 children aged 8 and 10. Mary has bipolar disorder and has recently come out of hospital after an episode of severe depression. She needs frequent care and support throughout the day. Her mum comes in most days and Pete has reduced his hours of work from full-time to 25 hours a week so he can help. He earns £8.50 an hour in the local supermarket.

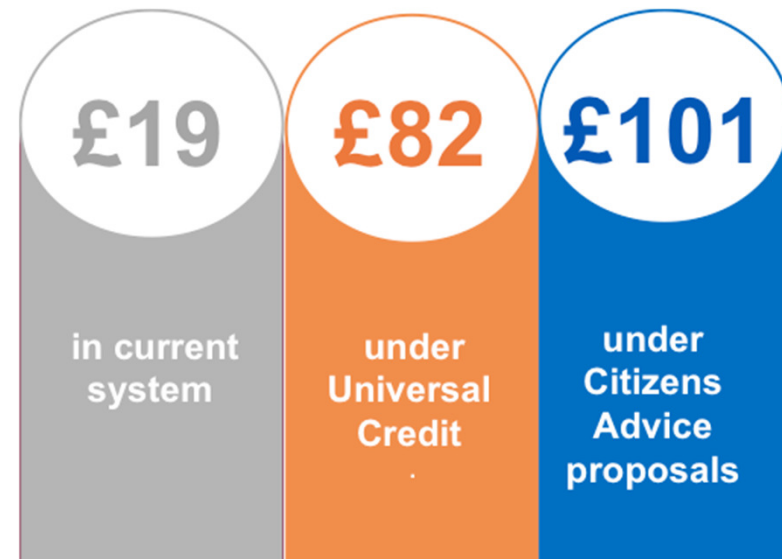
Under the current system the gains from 25 hours of work are very poor – they are just £19 better off than if he gave up work. The gain from 25 hours work is lower than if he worked just 3 hours a week.

Under universal credit even if neither works they will be £14 better off than not working under the current system. If Pete works 25 hours a week then they will be £82 a week better off than in the current system if neither worked.

Under Citizens Advice proposals for universal credit if Pete works 25 hours a week they will be £101 better off than in the current system if neither worked.

“21% of children in families with at least one disabled member are in poverty, a significantly higher proportion than the 16% of children in families with no disabled member.”
Gov.UK²⁰

The gain for Pete from working 25 hours is:



1 d) Households with disabled children

Problem: Most families with disabled children will receive less help under universal credit if no-one in the household is able to work because of caring responsibilities. Single parents who are able to do a few hours of work will be able to make work pay but will face a significant barrier to increasing their hours of work substantially.

Issue (see graph)

Under **universal credit (orange line)** the disabled child element is being cut to half of what it is in the **current system (grey line)**. In addition single parents who are able to work more than 16 hours will have considerably lower gains from work than under the current system. **Citizens Advice proposals for universal credit (blue dotted line)** go some way to mitigate these problems for parents who are able to work, by restoring a steady gain in income as hours of work rise.

Underpinning analysis

In the current system, (grey line) parents of disabled children receive a £60 disability child element in their child tax credits. The graph shows the incentives to work for single parents. Incentives are poor for those working less than 16 hours but better if they work 16 hours or more (*point 1*).

Under universal credit (orange line) most parents will only receive a child disability element of about £28.50 (£30 less than currently) (*point 2*) so will be worse off if not in work. Low income single parents will be able to make a few hours of work pay but if they work 16 hours or more a week will gain less from working than in the current system. The combination of the loss in the child disability element and the lower gain from work means that these households will be very significantly worse off (*point 3*).

Under Citizens Advice proposals for universal credit work incentives are improved but this does not assist those unable to work because of caring responsibilities. An increase in the disability element should be a priority when funding allows.

Carers

Parents caring for a child who is entitled to DLA mid or high rate of the care component will have the carers element included in their benefit.

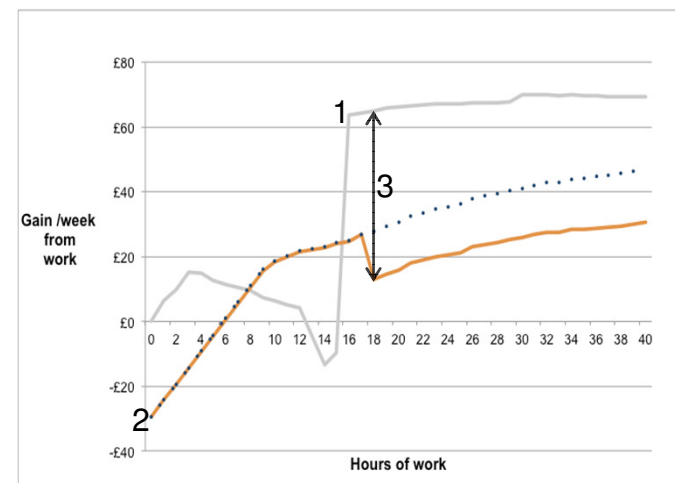
In the current system carers don't keep it unless they earn less than £100 – this damages the incentive to work more hours. However under **universal credit** carers will retain carers element if entitled regardless of hours of work.

Who will this affect?

DWP estimate that around 100,000 disabled children will be affected by the reduction in support.²¹ Single parent households will be particularly badly affected – almost 30% of single parents who have been married but have separated have a disabled child compared to just over 20% of couples with children.²²

Gains from working for a lone parent (compared to not working in current system)

(not entitled to carers element, earning £6.50 an hour, paying rent, children aged 8 and 10 one on DLA)



Recommendations 1 & 2: Measures (free school meals for all on UC and increased support with childcare costs) to improve the work incentives for households with disabled children. Additional support for these families should be a priority when funding allows.

1 d) Households with disabled children

Illustrative example: Anita is a single parent with two children, one of whom has been diagnosed with cerebral palsy

Anita

Anita and her husband separated about seven years ago when their children were four and two years old. Their second child Darren was diagnosed with cerebral palsy shortly after his birth. Anita didn't return to work at the end of her maternity leave as Darren needed her constant support. Now Darren is older Anita has found a job in a local shop working 20 hours a week - she can only work part-time because of her caring responsibilities. She is not entitled to the carers element because Darren's DLA has now been reduced.

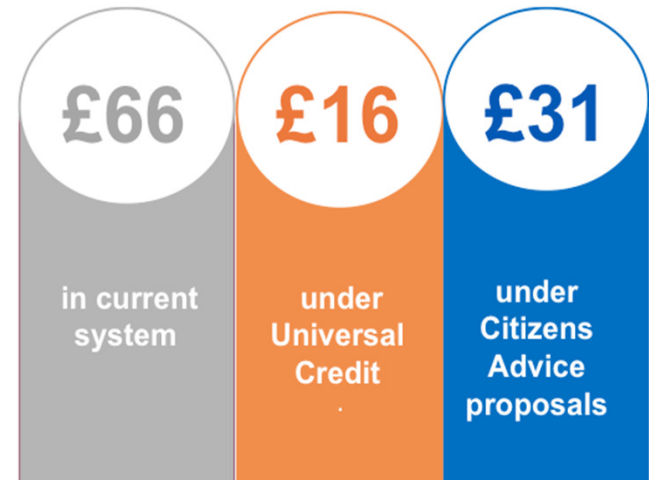
Under the current system she is £66 better off working 20 hour than if she wasn't working.

Under universal credit she is £16 better off working 20 hours compared to her income in the current system if she is not working.

Under Citizens Advice proposals for universal credit she will be £31 better off working 20 hours compared to her income in the current system if she is not working.

It costs up to three times as much to raise a disabled child, as it does to raise a child without disabilities.²³

The gain for Anita working 20 hours a week (compared to out of work benefits in the current system) is:



A note about couples

The **current system** has poorer work incentives for the second earner in low income couples than **universal credit**. This may enable some low income couples to make up the loss in the child disability element especially if the second earner is entitled to carers allowance. However **Citizens Advice proposals** to increase support for childcare costs and award free school meals to all children in households on universal credit would further improve the financial circumstances of these families.

1 e) Support if there are two disabled people in a household

Problem: Under current proposals for universal credit two disabled people in a household will only have the same level of extra financial support as a couple where only one is disabled.

Issue (see graph)

For couples where both partners are disabled and both in work, the gains from work are much lower **under universal credit (orange line)** than under **the current system (grey line)**. This is because under universal credit these couples receive no more additional support than couples where only one of the partners is disabled.

Citizens Advice proposals for universal credit (blue dotted line) improve the gain from work for the second earner and the household.

Underpinning analysis

Under the current system (grey line) if both work at least 16 hours a week, they are entitled to two disability elements in their working tax credit (*point 1*) in recognition that both face additional costs in work.

Under universal credit (orange line) they will only be entitled to one WRAG or support group element - whichever is the higher - and one disability work allowance. (Those with lower rents or higher earnings will move out of benefits earlier and so lose out less than those with higher rents or lower earnings.)

Under Citizens Advice proposals for universal credit (blue dotted line), the extra work allowance, especially when combined with a second earner work allowance (Recommendation 3), would provide a better gain from work than current proposals.

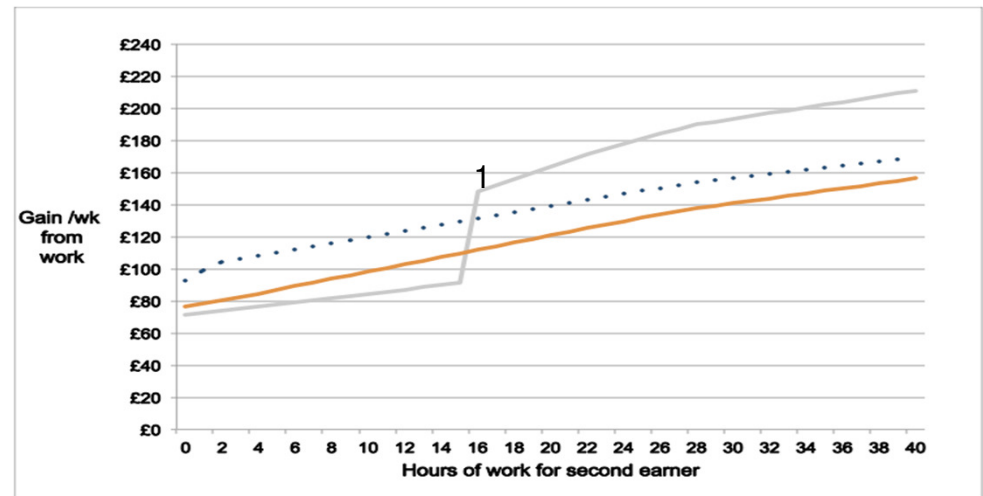
Who will this affect?

Couples, if both partners are disabled and working more than 16 hours, will lose out significantly under universal credit. The loss will be even greater if they are both entitled to severe disability premiums (see section 2a). Approximately 1000 households have two workers entitled to the disability element of Working Tax Credit.²⁴

Gains from work as hours of work of second earner rise for a couple both of whom are disabled

(compared to neither being in work).

(One earns £200 a week, other earning £6.50 an hour, rent £110 a week)



Recommendation 4b: If there are two adults with limited capability for work or work related activity in the household, increase by £150 a month, the amount that the household can earn before their universal credit is reduced.

Recommendation 3: a second earner work allowance will also assist these households.

1 e) Support if there are two disabled people in a household

Illustrative example: Paula and John are both deaf, Paula is also partially sighted

Paula and John

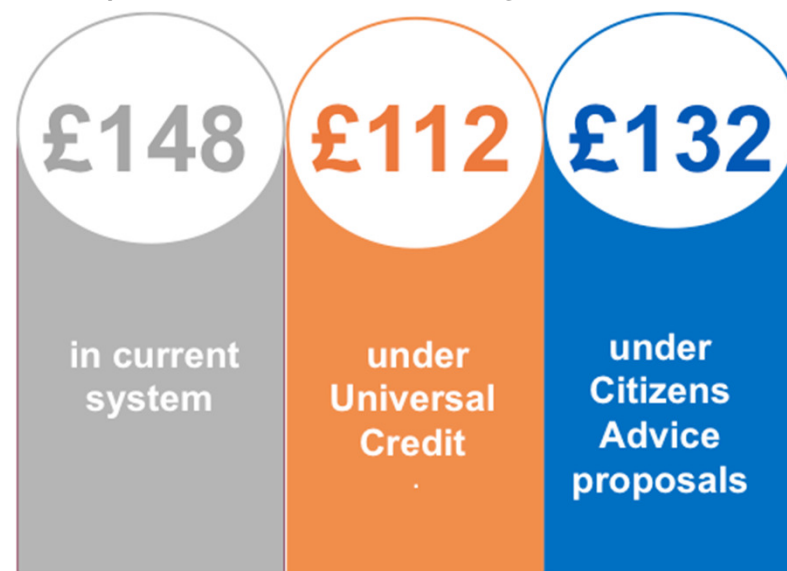
Paula and John both have a hearing impairment, Paula also has a visual impairment. They both are keen to work, John has been employed for some time in the local supermarket and earns £200 a week. Paula gets a job working 16 hours a week in the office of a local firm – she is paid £6.50 an hour.

Under the current system they are £148 better off if John works 30 hours a week and Paula works 16 hours a week than if neither was working. Paula's gain from working is £57 a week.

Under universal credit they are £112 better off than if neither was in work. Paula's gain from working is £36 a week.

Under Citizens Advice proposals for universal credit they are £132 better off than if neither was in work. Paula's gain from working is £40 a week.

If Paula and John both work their gain compared to neither being in work will be:



1 f) Disabled people who are found 'fit for work'

Problem: Those who are disabled but don't qualify for additional financial support will struggle to cope financially if they can only work part-time and have extra costs when working.

Issue (see graph)

A disabled person will only be entitled to additional support in work **under universal credit (orange line)** if they are found to be 'not fit for work'. This is a much higher threshold than **under the current system (grey line)** so many fewer disabled people will qualify for additional support under universal credit. **Citizens Advice proposals for universal credit (blue dotted line)** would retain some additional support for this group.

Underpinning analysis

Under the current system (grey line) a disabled person can claim the disability element of WTC if they work at least 16 hours even if no longer entitled to ESA or DLA. This assists movement into part-time work for those who have been on ESA and their chronic condition improves but are unable to work full-time. (point 1).

Under universal credit (orange line) many of those who currently qualify for the disability element of working tax credit will not qualify for any more financial support than a non disabled person (point 2).

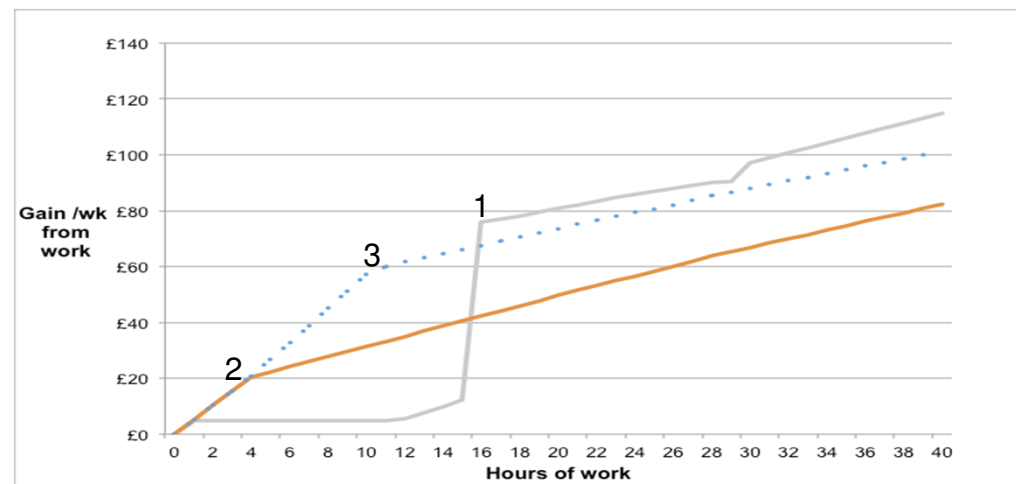
Citizens Advice proposals (blue dotted line) would mean that people in this position would get some additional financial support (point 3)

Who will this affect?

116,000 disabled people are currently entitled to the disability element of working tax credit.²⁵ It is not possible to estimate how many of these would be found 'fit for work' but our evidence indicates it is likely to be a substantial proportion.

Someone who is just outside the criteria for the Work Related Activity Group will still have a very significant level of impairment. Under universal credit this group will have significantly less financial support yet are a key group to enable to move into employment to achieve a more inclusive work force.

Gain from work for single disabled person found 'fit for work' (earning £6.50 an hour, rent £80 a week and council tax £15)



Recommendation 5a Those who are awarded more than 0 points but less than 15 points in the WCA should receive the disability work allowance (without the work related activity component).

1 f) Disabled people who are found 'fit for work'

Illustrative example: Elliot is a single man. He has been diagnosed as being on the autistic spectrum.

Elliot

Elliot was diagnosed with autism as a child. He is now 27 and in the last ten years has had several jobs but has found that trying to work full-time has led to him becoming very stressed, anxious and depressed and the jobs falling through.

He left his last job six months ago and is now feeling better and is keen to work. At a recent WCA he was awarded 12 points so he now counts as 'fit for work'. He finds a job working 16 hours a week working as an admin worker for a local firm. He works four hours a day, four days a week which means his travel costs are disproportionately high.

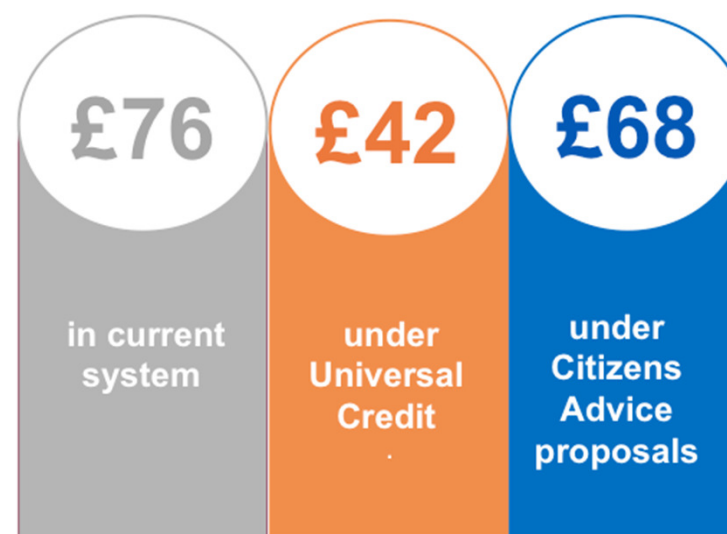
Under the current system he will be £76 better off than if he wasn't working.

Under universal credit he will be £42 better off than if he wasn't working. This drop will push him below the poverty line.

Under Citizens Advice proposals for universal credit he would be £68 better off than not working.

"Disabled people are more likely to have low-paid, low-status jobs which may not lift them out of poverty." Labour Force Survey²⁶

The gain for Elliot from working 16 hours a week is:



The lack of additional financial support for disabled people who are found 'fit for work' is likely to affect many disabled people with different sorts of impairments. For example someone who has a condition which means they are easily exhausted and can only walk between 50 and 100 metres without stopping would only gain 9 points in the WCA. Unless they had some other impairment they would be found 'fit for work' but would have considerable extra costs in work. Our report *'Holes in the safety Net'* gives many examples of these extra costs.²⁷

1 g) People with deteriorating conditions

Problem: People needing to reduce their hours of work for health reasons will find that under universal credit they may have to reduce hours of work by more than they wish or even have to give up work.

Issue (see graph)

Under universal credit (orange line) a disabled person will only qualify for additional support if they are found to be 'not fit for work'. Those with a deteriorating condition who have previously not been entitled to any additional support cannot have an assessment to test this unless they earn less than about £100 a week or are entitled to PIP. This produces a significant incentive to reduce hours of work to earn below this threshold. There is a similar perverse incentive **under the current system (grey line)**. **Citizens Advice proposals for universal credit (blue dotted line)** would remove the perverse incentive.

Underpinning analysis

The current system is complex for this group. Someone who is awarded DLA (a much lower barrier than PIP) will qualify for working tax credit including the disability element if they work at least 16 hours a week (*point 1*). They can claim ESA if they earn below £101 and keep all their benefits in full for a year (*point 2*).

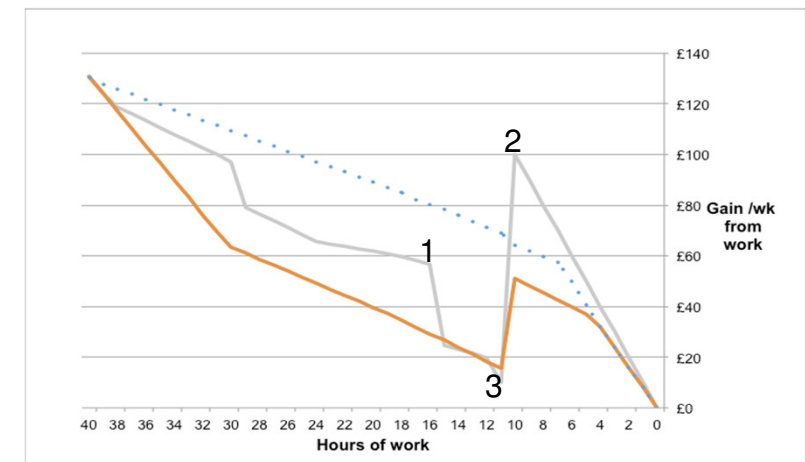
Under universal credit the situation is still complex for this group. Someone can only qualify for extra financial help towards the extra costs of work if they have a work capability assessment (WCA) and are placed in the WRAG or support group. However to be eligible for a WCA they must currently be in one of these groups **or** earn less than equivalent of 16 hours at the minimum wage (*point 3*) **or** receive PIP (or DLA).

Under Citizens Advice proposals for universal credit the rules would be simplified so that it will not be necessary to qualify for PIP in order to have a WCA to assess your need for additional financial support thus removing the perverse incentive to reduce hours of work.

Who will this affect?

People with a deteriorating or chronic condition would often like to stay in some work but may need to reduce their hours of work either temporarily or permanently. Under universal credit they may need to reduce their hours more than health reasons would necessitate.

Gains as hours of work decrease for someone with a deteriorating condition
(earns £10 an hour, rent of £80 a week)



Recommendation 6: Remove the requirement, for those earning more than the equivalent of 16 hours at the minimum wage, to be entitled to DLA or PIP before they can undergo a work capability assessment to assess their entitlement to additional support.

1 g) People with deteriorating conditions

Illustrative example: Sunita was diagnosed with MS some years ago. Her condition has deteriorated and she needs to reduce her hours of work

Sunita

Sunita was diagnosed with MS when she was 30 years old. She continued to work full-time for the following six or seven years but she is finding it increasingly difficult to continue and wants to reduce her hours of work. She earns £10 an hour as a secretary for the CEO of a small firm and her employer is keen to keep her. He agrees she can reduce her hours from 36 to 18 hours a week.

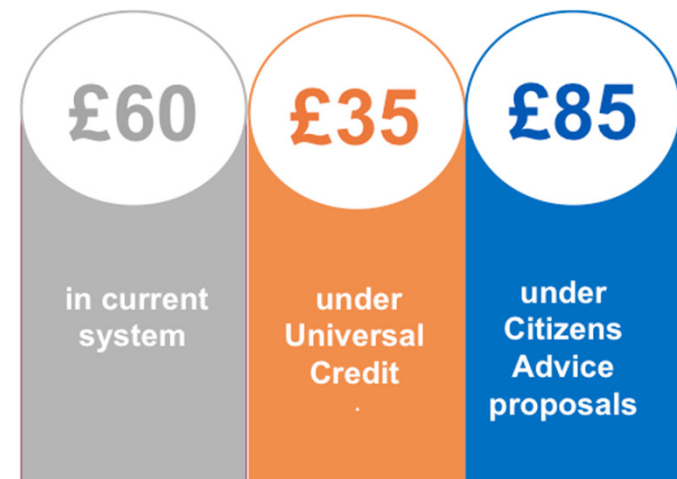
Under the current system as she is entitled to the lower rate of the care component of DLA she receives the disability element of WTC and is £60 better off than not working. (Perversely she would be £100 better off if she reduced her hours of work to ten hours a week, though she could only do this for a year).

Under universal credit she will be £35 better off than not working. There is again a perverse incentive to reduce her hours of work to ten a week as she would then be £51 better off than not working.

Under Citizens Advice proposals for universal credit she will be £85 better off than not working. There is no perverse incentive to reduce her hours of work.

DWP through the Health, Work and Wellbeing programme are working with employers and doctors to encourage more people with health conditions to remain in work. It is important that employers and employees are able to negotiate the hours of work that fit with the health needs of the employee and the needs of the business without artificial barriers being created by the benefits system

If Sunita reduces her hours to 18 hours a week compared to not working she will be better off by;



“Up to 44 per cent of people with MS retire early due to their condition – a higher percentage than the European average (35 per cent)”²⁸

1 h) Disabled people who have a mortgage

Problem: Disabled people who have a mortgage and can only work part-time may find that they cannot afford to work at all

Issue (see graph)

Under universal credit (orange line) mortgage interest is paid when not the claimant is not working. However as soon as they do any work at all they lose all support with mortgage interest. This particularly affects those who work part-time. If they earn less than their mortgage interest they will actually be worse off than doing no work at all. **Under the current system (grey line)** it pays to do some work but there is a variable threshold at which extra work doesn't pay until working 16 hours. **Citizens Advice proposals for universal credit (blue dotted line)** would enable a steady gain for each hour worked.

Underpinning analysis

Under the current system (grey line) someone claiming ESA will have their mortgage interest included in their ESA (income based). As shown earlier, those in the WRAG earning up to £101 keep all of their ESA but lose it all if they work more than that. (**point 1 solid grey line**). However after one year they can only earn £20 a week before they lose all their ESA (**point 2 dotted grey line**).

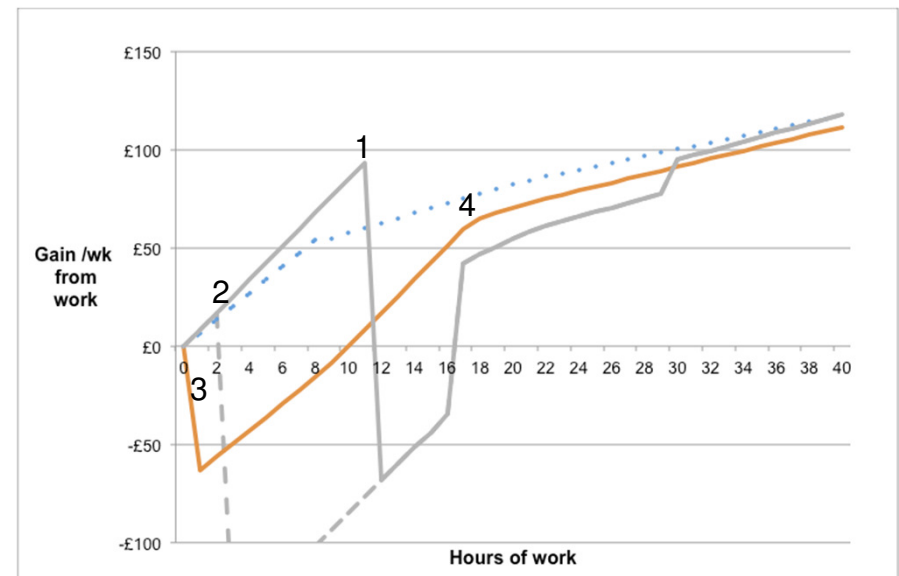
Under universal credit, (orange line) if a claimant does any work at all then they lose any help with mortgage interest (**point 3**) so those who earn less than their mortgage interest will actually lose money if they work. The higher work allowance, however means that those who can work enough hours to make full use of their work allowance will be no worse off than those who pay rent (**point 4**).

Citizens Advice proposals (blue dotted line) would mean that those who can only work a few hours would still be able to make work pay. However their work allowance would be no higher than for those renting so those who can work full-time would be no better off (**point 2**).

Who will this affect?

Many disabled people who have been placed in the WRAG or support group will not be able to work more than part-time. They are under no conditionality to work. If they pay mortgage interest they may not be able to afford to work under universal credit. **67,000 sick and disabled people received support for mortgage interest in their benefit in 2012/13.**²⁹

Single disabled person earning £8.50 an hour (mortgage of £70 a week, council tax £15 a week)



Recommendation 7: For those who are under no conditionality to work, treat mortgage interest in the same way as rent.

1 h) Disabled people who have a mortgage

Illustrative example: John has Parkinson's Disease. His condition has deteriorated and he can now only work a few hours. He owns his own flat but hasn't finished paying off his mortgage.

John

John is 55 years old. He lives on his own in a small flat – he pays mortgage interest of £70 a week.

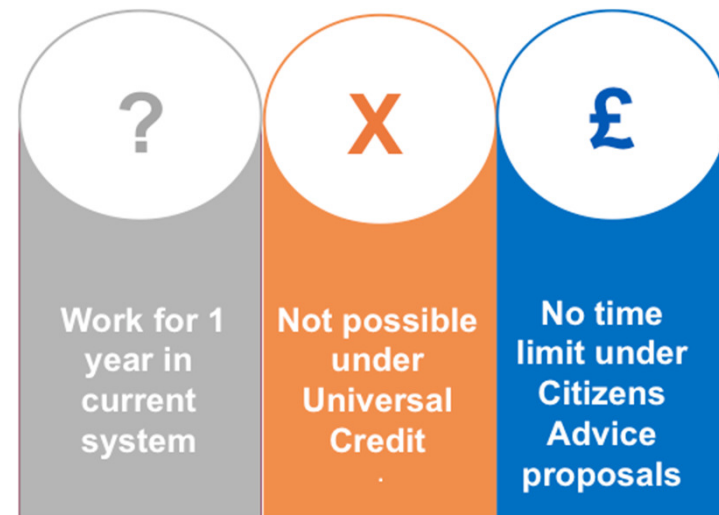
He was diagnosed with Parkinsons Disease two years ago and had to give up his job as a plasterer in a local building firm. A friend who owns a shop has offered him five hours work a week – one hour a day to cover the lunch break. This would be ideal for him getting him out of the flat but without being too exhausting.

Under the current system he could do it for a year but then would have to restrict his hours of work to 3 hours or he would lose all his ESA.

Under universal credit he could not afford to do any work at all as earning £30 would mean he lost £70 off his universal credit leaving him £40 worse off than not working.

Under Citizens Advice proposals for universal credit he would not have any artificial restriction on his hours of work. If he earned £30 he would be £30 better off than if he didn't work.

John would like to work five hours a week:



It does not make economic sense to have a system where people under no conditionality to work are actually incentivised to not work. Under the permitted earnings rules of the current system, many people need to ensure they limit their earnings as they cant afford to lose their ESA. We believe the current proposals would have a similar effect preventing many disabled people with a mortgage keeping in touch with the labour market by doing a few hours work.

1 i) Couples (one disabled, other a carer) who have a mortgage

Problem: A couple, one of whom is in the support group and the other their carer but also working part-time, may find that the carer cannot continue in work if they have a mortgage.

Issue (see graph)

Under universal credit (orange line) mortgage interest is paid when not the claimant is not working. However as soon as they do any work at all they lose all support with mortgage interest. If a carer is only able to work part-time because of caring responsibilities then they may be unable to afford to do any work. **Under the current system (grey line)** they are able to earn up to about £100 and will be £20 better off than not working. **Citizens Advice proposals for universal credit (blue dotted line)** would enable a steady gain for each hour worked.

Underpinning analysis

The current system does allow a carer to stay in touch with the workplace. They will be £20 better off (*point 1*) for any earnings between £20 and £100. However doing more work than this is difficult. Because carers allowance is lost (*point 2*) and then mortgage support (*point 3*) as hours increase, it is very hard for a carer in this situation to make work pay beyond a few hours despite support from working tax credit.

Universal credit is an improvement on the current system for those who can work for more than a few hours. However (as on the previous page) if the carer is only able to work part-time because of caring responsibilities they may not be able to make work pay as the couple will lose all help with mortgage interest as soon as either of them does any work (*point 4*).

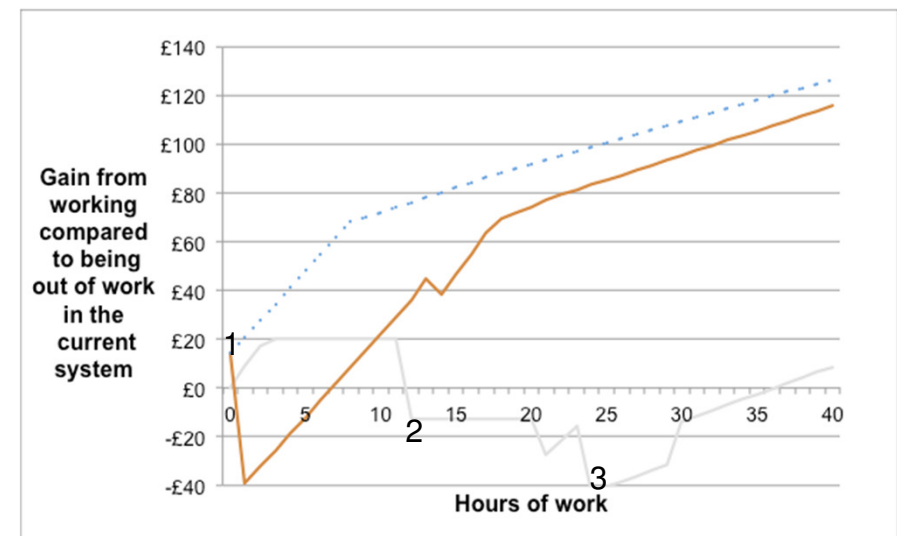
Under Citizens Advice proposals there is an incentive to work more hours but also far greater flexibility for those who can only work part-time.

Who will this affect?

Couples, where one person is unable to work and has care needs and the other is working part-time as well as caring for their partner, will be affected by this rule if they have a mortgage. Couples where one person develops a deteriorating or possibly terminal condition are particularly likely to be affected.

Gains from work for a couple, one in the support group of ESA, the other earning £8.50 an hour.

(Two children, mortgage £60 a week, council tax £20 a week)



Recommendation 7: For those who are under no conditionality to work, treat mortgage interest in the same way as rent

1 i) Couples (one disabled, other a carer) who have a mortgage

Under universal credit, in the above households the carer may find that they cannot afford to stay in work at all if they can only do a few hours work because of caring responsibilities.

Ian and Mary

Ian and Mary own their own house and pay mortgage interest of £60 a week. They have two children aged 15 and 17 who both attend the local school. Both Ian and Mary were working until two years ago when Ian was diagnosed with Motor Neurone Disease and had to stop work. Since then his condition has deteriorated very quickly and Mary's employer has agreed she can reduce her hours of work to two three hour shifts (earning about £50 a week) so she can care for her husband. Ian's mum will travel over to look after Ian whilst she is out. Mary is keen to not lose her job as they have used up all their savings and are struggling financially.

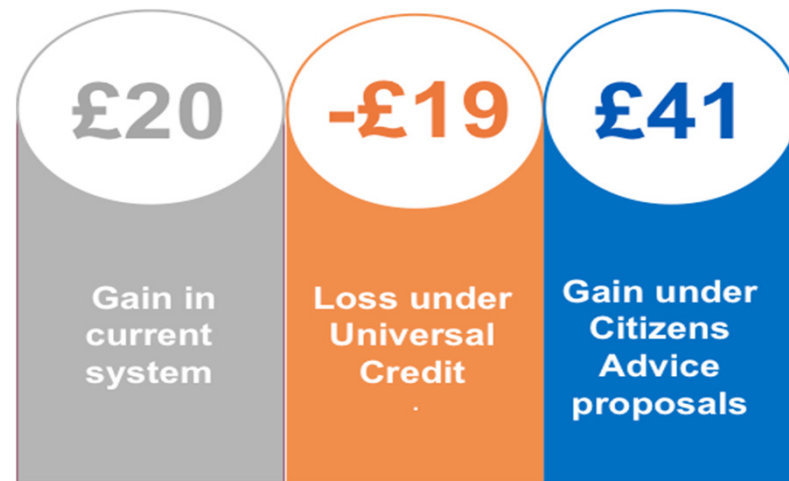
Under the current system they will be £20 a week better off than if she didn't work.

Under universal credit they will be £19 worse off than if she didn't work.

Under Citizens Advice proposals for universal credit they will be £41 better off than not working.

Couples in this situation are likely to have seen a sudden drop in their income. They will be facing difficult choices about how to manage financially whilst struggling with coming to terms with the condition and working out how to manage practically with the care needs and demands of work.

Gain compared to not working if Mary earns £50 a week:



The system needs to support couples in this situation to make the best decision for themselves in conjunction with their employer in terms of hours of work. universal credit should not close off the possibility of the partner who is caring staying in part-time work.

1 j) People with a deteriorating condition who have a mortgage

People with a mortgage who need to reduce their hours of work for health reasons may find that under universal credit they are unable to work at all.

Issue (see graph and sections 1h) and 1g)

Under universal credit (orange line) those who have a mortgage and a deteriorating condition so are reducing their hours of work are even more likely to not be able to afford to work part-time.

Underpinning analysis

The current system (grey line) is complex for this group but those who qualify for the lower rate of DLA can claim the disability element of WTC and if they need to reduce their hours below 16 a week they will have a year at the higher earnings limit of ESA (£101 *point 1*).

Under universal credit (orange line) as shown in section 1g) someone needs to earn less than £104 (*point 2*) or they would need to qualify for PIP as well as being found not 'fit for work' to receive extra financial support to cover their extra costs. However because, if they do any work, mortgage interest is not included in their UC they are unlikely to be able to make work pay at such low hours of work (*point 3*). The combination of these two rules effectively means that many in this position will simply not be able to make work pay.

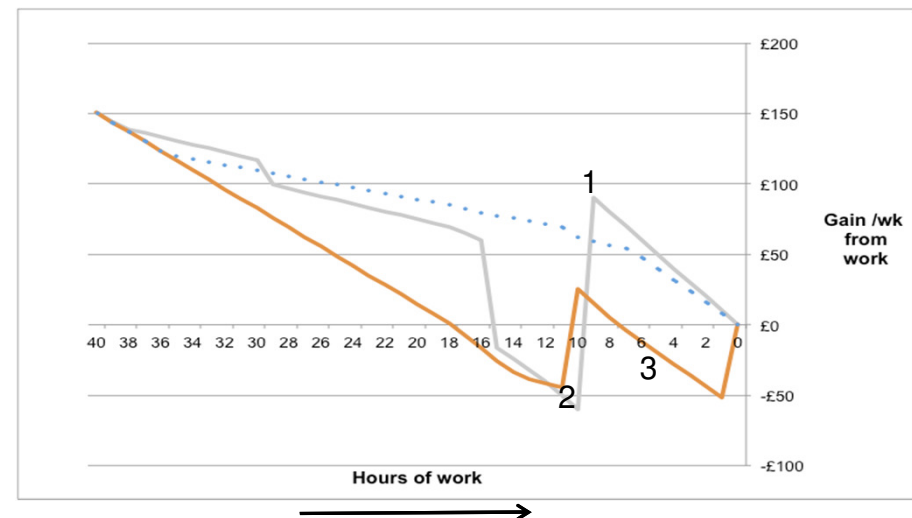
Citizens Advice proposals (blue dotted line) allows the flexibility to decide hours of work based on the health needs of the employee and the needs of the workplace, rather than the benefits system dictating the possibilities.

Who will this affect?

This is another situation which is likely to affect someone with a deteriorating condition or someone who has a chronic condition with relapses. **It makes no sense to produce a system which effectively stops people remaining in the workplace on reduced hours of work.**

Single person with a deteriorating condition earning £10 an hour

(Earns £10 an hour, mortgage £60 a week, council tax £15)



Recommendations 6 & 7 Covered in sections 1h) and 1g)

1 j) People with a deteriorating condition who have a mortgage

Illustrative example: Sharon has arthritis and she needs to reduce her hours of work. She is paying a mortgage.

Sharon

Sharon is 53. She lives in her own and pays mortgage interest of £60 a week. She has been working full-time earning £10 an hour as a secretary for a small firm in the next town.

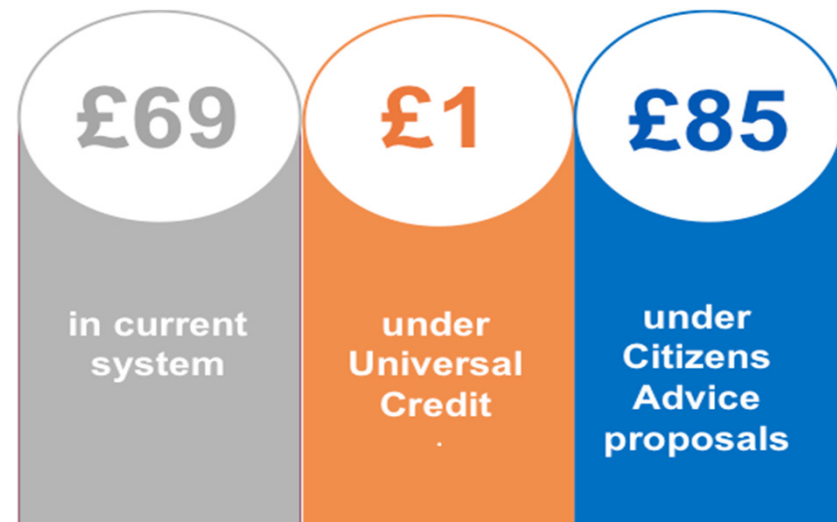
Her arthritis has been getting steadily worse and she needs to reduce her hours of work. Her employer agrees to her just working mornings (18 hours a week).

Under the current system she will be £69 better off than if she stopped working.

Under universal credit she will only have £1 more than if she didn't work – her travel costs would mean that she would actually be worse off working.

Under Citizens Advice proposals for universal credit she will be £85 better off than if she stopped work.

If Sharon reduces her hours of work to 18 hours a week her gain compared to not working is :



2 a) Severely disabled people who live on their own and don't have a carer

Severely disabled people who live on their own and don't have a carer will be much worse off under universal credit.

Issue (see graph)

Under the current system 'severely disabled' people who live on their own or just with dependent children and don't have a carer, have a severe disability element (SDP) (about £60 a week) added to their benefit to take account of the extra costs they face. **Under universal credit** there is no equivalent of this. **Citizens Advice proposals for universal credit** would award a 'self care' element (worth the same as the carers element) to this group.

Underpinning analysis

In the current system the severe disability premium (worth about £60 a week) is added on to the means tested benefits of 'severely disabled' people who live on their own or just with dependent children and don't have a carer.

Universal credit has no equivalent of the severe disability premium. The Government has said that money saved will be used to increase the amount someone in the support group receives. This money will now be spread amongst many more people including those who don't face the extra costs of living on their own. Because of this those who live on their own and are in the support group will be almost £40 worse off than under the current system.

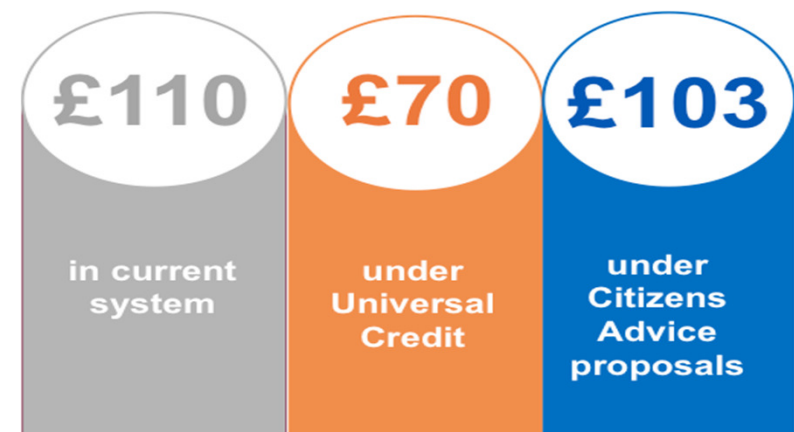
Households with adult carers with a partner in the support group will gain significantly from the rise in the support group element and also because they keep the carers element even if in full-time work. Single parent households with young carers however will be significantly worse off.

Under Citizens Advice proposals for universal credit severely disabled people who live on their own or just with dependent children would receive the self care element worth the same as the carers element. For those in the support group, this would reduce the loss to about £6 compared to their income in the current system.

Who will this affect?

The benefits system defines someone as 'severely disabled' for the purpose of awarding the severe disability premium if they qualify for the middle or higher rate of the care component of DLA or the daily living component of PIP. 230,000 disabled people receive the severe disability premium (SDP) in their means tested benefits. 25,000 of those who receive the SDP are single parents.³⁰

Amount each week added to basic living costs to cover the extra costs faced by a 'severely disabled' person in the support group and living alone:



Recommendation 8: Introduce a self-care element for those who live on their own or with dependent children and don't have a carer.

2 a) Severely disabled people who live on their own and don't have a carer

Illustrative example: Dianne is a single parent. She has recently become blind.

Dianne

Dianne is a single parent. She lives in a privately rented house with her daughter, Vicky, who is 11. Dianne was working until a year ago when her sight suddenly started to go – within a few months she had lost all her useful sight. She claims ESA and has been placed in the work related activity group. She has also been awarded the middle rate care and high rate mobility component of DLA.

Dianne is still struggling to adjust to her situation and is very reliant on Vicky to assist her in many everyday tasks in the house. She is also reliant on Vicky to go with her whenever she goes out. She now has to pay someone to do small household jobs which it is not safe for Vicky or her to tackle.

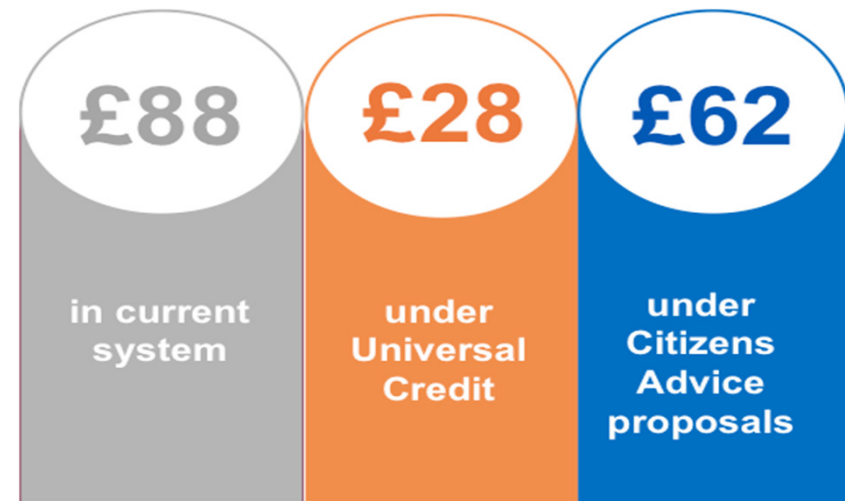
Under the current system Dianne is entitled to the severe disability premium to be added onto her ESA. She has £88 added to her living costs to cover the extra costs she faces that someone with an adult carer wouldn't face.

Under universal credit Dianne has £28 added to her living costs to cover the extra costs she faces. She will be almost £60 worse off.

Under Citizens Advice proposals for universal credit she would be entitled to a self care element worth the same as the carers element that an adult carer receives. She would have £62 added to her living costs to cover the extra costs she faces.

Evidence from disabled people in our report *Holes in the Safety Net* demonstrated that even with the SDP, severely disabled people who live on their own or just with dependent children face expenses with many everyday tasks which are not faced by those with a partner or adult carer.³¹ Single parents in the survey said they used the SDP to pay for example for someone to clean so that their children, who were acting as their carer, had some of the burden removed.

Amount added to basic living costs a week to cover the extra costs Dianne faces:



2 b) People with an occupational pension

universal credit results in those who have worked and paid NI contributions and also into a pension scheme being no better off than if they had never worked.

Issue (see graph)

Under the current system those who have paid NI contributions and also have an occupational pension are better off as a result. **Under universal credit** they will be no better off than if they had never worked or paid into a pension because any income apart from wages is taken off universal credit entitlement pound for pound. **Citizens Advice proposals for universal credit** would at least give a small gain in recognition of having paid into the system.

Underpinning analysis

Both the current system and universal credit have mechanisms to ensure that income from earnings is not all taken away from entitlement £1 for £1 so that people see some gain from being in work.

The current system (grey line) uses these mechanisms, to some extent, to allow people to also see some financial gain from having worked until they were unable to do so and having made provision by paying NI contributions and into an occupational pension.

Under universal credit (orange line) any income such as an occupational pension will be taken pound for pound off entitlement. Someone who has worked for many years, will see no gain from any of their income apart from earnings.

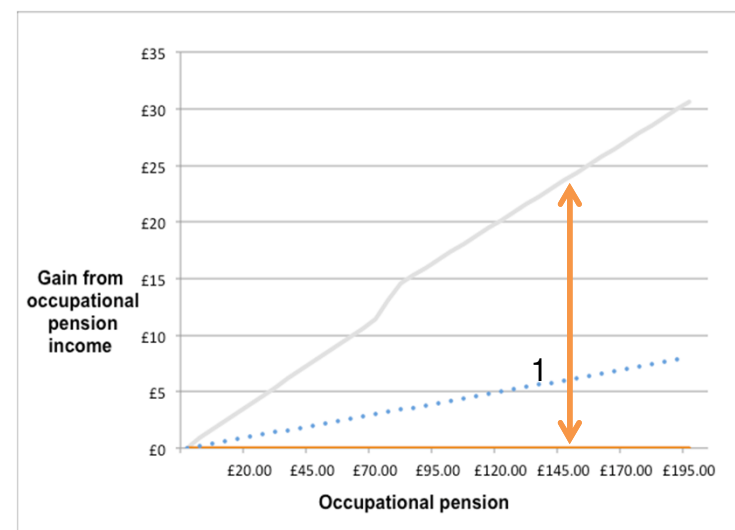
Under Citizens Advice proposals (blue dotted line) there is only a very small gain from having paid into an occupational pension for many years. Improving this should be a priority as soon as it became affordable. However it is essential to at least establish the principle that it is not taken pound for pound.

Who will this affect?

Most people affected by this measure will be those who have to retire early because of a serious health condition having worked for many years, paid national insurance contributions and into a pension scheme.

Gain from an occupational pension for a single person

(Assumes ESA contribution based, rent £120 a week)



Recommendation 10. Apply a taper to any income from an occupational pension; initially setting this taper to 95% but reducing this as soon as funding allows.

2 b) Single people who develop a serious health condition and need to retire early

Illustrative example: Dave has cancer. He has retired early on health grounds and has an occupational pension.

Dave

Dave is 55 years old. He lives on his own in a privately rented flat. He has worked for about 35 years – the last twenty years in the warehouse of a local firm.

He was diagnosed with cancer a couple of years back. After treatment he returned to work but found he got tired very quickly and was struggling to manage. He has now been told the cancer has returned – he is not receiving treatment at the moment – he will need treatment later as his condition worsens but it can only be palliative. He retires on health grounds and claims his occupational pension of £150 a week. He claims ESA and is placed in the WRAG.

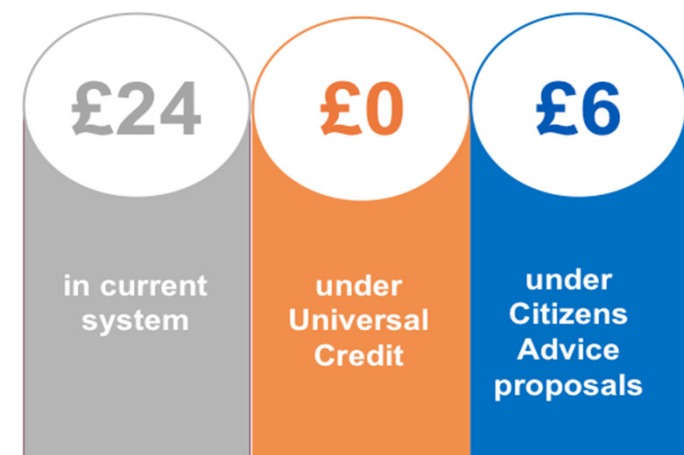
Under the current system he will be £24 a week better off as a result of an occupational pension of £150.

Under universal credit he will gain nothing as a result of his occupational pension.

Under Citizens Advice proposals for universal credit he will be £6 better off.

Dave is likely to be placed in the support group at some time in the next few months and awarded the daily living component of PIP. The lack of an equivalent of the severe disability premium in universal credit as well as the treatment of his occupational pension will mean that he will be £46 worse off than under the current system. Our proposals for universal credit will reduce the drop in income compared to the current system to £6.

In the WRAG, Dave's occupational pension of £150 will mean he is better off by:



2 c) Someone who appeals a 'fit for work' decision

If someone is appealing a decision that they are 'fit for work' and they are not entitled to ESA(contributory) they will be treated as 'fit for work' and have to sign on to be entitled to universal credit until their appeal is heard.

Issue

Under the current system someone who wishes to challenge a decision that they are 'fit for work' receives the basic rate of ESA once the decision has been reconsidered and they have put in an appeal. **Under universal credit** in order to receive any benefit they will have to sign on as 'fit for work' until their appeal is heard. **Citizens Advice proposals for universal credit** would require them to fulfil the same level of conditionality as those in the WRAG though they would only be eligible for the basic rate of benefit.

Underpinning analysis

Under the current system (since last October) someone who is found 'fit for work' and wants to appeal this decision has first to apply for a reconsideration. Once they appeal the decision they are entitled to the assessment rate of ESA but whilst the decision is being reconsidered they are not entitled to ESA and have to sign on to receive any benefit.

Under universal credit those who are not 'fit for work' but are not entitled to ESA(contribution based) will be entitled to *universal credit with the work related or support element* not ESA(income based). This seemingly technical difference will have a very significant impact on those appealing a decision that they are 'fit for work'.

Because they will not have an entitlement to ESA they will have to fulfil appropriate job seeking requirements in order to receive any benefit until their appeal is heard. Appeals can often take over a year to be heard.

Citizens Advice proposals for universal credit would require them to fulfil the same level of conditionality as those in the WRAG though they would only be eligible for the basic rate of benefit.

Who will be affected

Our evidence demonstrates that some ESA decisions are wrong by a very large margin. It is not unusual for advisers to represent clients who are given zero points in their WCA and are subsequently placed in the group for the most severely disabled (support group) at tribunal. It is of great concern that people in this position may not be entitled to any benefit for over a year if they are unable to sign on.

Citizens Advice published *The cost of a second opinion* in July 2014.³² This outlines the very many problems mandatory reconsideration has caused for our clients. The most common waiting time for those clients interviewed was 8 weeks. The research found that these delays to decisions caused significant emotional and financial pressure and, in some cases, resulted in referrals to a food banks, borrowing money from family and friends and selling possessions to raise money. **It is very concerning that this waiting time will extend substantially .**

Recommendation 5 b) Treat those who are challenging a decision that they are 'fit for work' as being in the WRAG for conditionality purposes. This would have no cost implications as they would be entitled to the same rate of universal credit as if they were 'fit for work'.



Conclusion

Universal credit has the potential to deliver on its aims for disabled people. It could help to create a more inclusive labour market whilst supporting those disabled people who are unable to work.

Universal credit offers some very significant advantages compared to the current system for those sick or disabled people who are able to work. Those who are unable to work for 16 hours or more will be able to work less than 16 hours without time restriction. Those who need to vary their hours of work due to a fluctuating condition will no longer need to face the complexity of moving between in work benefits and tax credits and out of work benefits.

However, although keeping more (35p) of every extra pound earned appears good, our analysis has shown that many disabled people will actually see a much smaller gain and others will find that extra money ***earned*** actually leads to a loss in ***overall income***.

Our **recommendations** on changes to the structure of universal credit would ensure that:

- Disabled people who will face extra costs in working more hours have a greater proportion of these costs paid.
- That work also pays for those disabled people who may not have the highest level of impairment but who are most disadvantaged in access to the labour market – those with a low level of qualifications.
- There are no perverse incentives built into the system which mean it is difficult to make work pay for some hours of work.

They would also ensure that those disabled people who are unable to work and at the greatest disadvantage – ‘severely disabled people’ who live on their own or just with dependent children and don’t have a carer – are supported.

Citizens Advice recommendations (covering households with children as well as disabled people) would cost £1.5 billion but could be paid for by raising the earnings taper to 70%. This would mean that someone’s initial income would rise by 30p instead of 35p for every pound of net earnings if their maximum amount of universal credit stayed the same. The funds released would finance our proposals. Our analysis shows that these proposals would result in a more equitable structure. Those who would find, under the current structure of universal credit, their gain from work is high, would gain slightly less. However those, who under the current structure would keep much less or even lose by moving into work or increasing their earnings, would be better off.

Our recommendations would therefore rebalance universal credit.

Recommendations	Cost
1. Provide free school meals for all school children who live in households in receipt of Universal Credit.*	£780 million
2. Increase the subsidy for childcare costs to 90%.	£130 million
3. Allow the second earner in a household to keep an additional £50 a month of earnings before their income from universal credit is reduced.	£200 million
4. Increase the amount that someone can earn before their Universal Credit is reduced, by: a) £100 a month if there is an adult with limited capability for work or work related activity in their household <i>and</i> b) £150 if there are two adults with limited capability for work or work related activity in the household.	£100 million
5. a) Award those who are awarded more than 0 points but less than 15 points in the work capability assessment the disability work allowance without the Work Related Element. b) Treat those who are challenging a decision that they are 'fit for work' as being in the WRAG for conditionality purposes.	£50 million
6. Remove the requirement for those likely to have limited capability for work but earning more than the equivalent to 16 hours at the minimum wage, to be entitled to DLA or PIP, before they can undergo a work capability assessment to access the extra support they are likely to need.	Cost neutral
7. Include mortgage interest in the maximum amount of Universal Credit of a household even when someone is working if no one in the household is under conditionality to work.	Cost neutral
8. Introduce a self-care element for those who live on their own or with dependent children and don't have a carer. (Additional cost after savings from support component).	£60 million
9. Ensure women on maternity leave get the same support in Universal Credit whether they are in receipt of maternity allowance or statutory maternity pay.	£140 million
10. Treat any income from an occupational pension and Widowed Parents Allowance to a taper of 95%.	£70 million
TOTAL GROSS COST (Rounded to nearest £100 million)	£1,500 million
TOTAL SAVING: Raising taper to 70%	£1,500 million
TOTAL NET COST	£0

*Funding for free school meals has been devolved to Wales, Scotland and Northern Ireland. Decisions on provision are for devolved administrations to make. However, as the savings would come out of universal credit as a whole, our costings have included all of the UK. They assume that funding to cover paying for free school meals for all children in households receiving universal credit in those countries would be made available to Wales, Scotland and Northern Ireland to use as they see fit.

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